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TRANSITIONS

WILL SANTA COME IN 2021?

As an adult, I still enjoy the excitement of Christmas and the captivating tales of Santa Claus riding a flying sleigh pulled by his eight reindeer and of course, it wouldn't be Christmas without the stingy Ebenezer Scrooge, or the excitement of the well adorned houses, strung with beaming lights for the holiday season. This year, I am guessing Santa and his elves are practicing social distancing and making sure they get through the big push before the holiday season, as I am sure he is also facing a major supply chain shortage.

Since it is December, it is a great time to talk about ol' St. Nick. December serves as the time of the year that you will hear many in the financial media affectionately talk about a "Santa Claus Rally." It is a term used to describe the seasonal tendency for the stock market to rally higher during the Christmas period. The term was first coined by market analyst, Yale Hirsch, in the 1972's volume of The Stock Trader's Almanac. A Santa Claus Rally typically occurs during the period spanning the last five trading days of the year and the first two trading days of the new year. The performance of the market during these trading days is used by some investors as an indicator of how well the market is likely to do the next year.

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The causes for the "Santa Claus Rally" are ambiguous, with theories such as, during this period there tends to be lighter volume due to institutional investors on holiday vacations, mutual fund rebalancing, year-end bonuses being invested, bullish retail investors, bullish technical indicators and the list goes on and on… No one can prove anything to correlate to the underlying cause for this rally. This theory suggests that the price movement of the S&P 500 during the final week of December heading into January may signal whether that index will rise or fall during the remainder of

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the next year. In other words, if the return of the S&P 500 in the first few days of January is negative, this would forecast a declining stock market for the remainder of the year, and vice versa if returns in January are positive. But we question if the entire market return for the following year, should be based upon a one-week period of very light volume.

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As a child, Santa's arrival was always unpredictable, but if we were patient, we would awake the next morning to lots of toys and gifts under the tree. The stock market is analogous to Santa's enigma – "Patience is a Virtue." The bottom line is that using a month or a day of the calendar year as an investment strategy may sound like a way to get an edge when investing. Stock prices do not go up or down because of a particular day or month. Rather than trying to beat the market based on hunches or headlines, we remain disciplined and use strategies based on one hundred years of market history.

Visit our Resource Center for more market commentary and insights.

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